

VZCZCXRO0170
OO RUEHDE RUEHLH RUEHPW
DE RUEHIL #2022/01 2370553
ZNR UUUUU ZZH
O 250553Z AUG 09
FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4538
INFO RUEHDO/AMEMBASSY DOHA PRIORITY 1676
RUEHBUL/AMEMBASSY KABUL PRIORITY 0794
RUEHKU/AMEMBASSY KUWAIT PRIORITY 1530
RUEHLO/AMEMBASSY LONDON PRIORITY 1184
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 5401
RUEHRH/AMEMBASSY RIYADH PRIORITY 5968
RUEHDE/AMCONSUL DUBAI PRIORITY 1874
RUEHKP/AMCONSUL KARACHI PRIORITY 2166
RUEHLH/AMCONSUL LAHORE PRIORITY 7772
RUEHPW/AMCONSUL PESHAWAR PRIORITY 6774
RUEAIIA/CIA WASHINGTON DC PRIORITY
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHINGTON DC PRIORITY
RHMFISS/HQ USCENCOM MACDILL AFB FL PRIORITY
RUEKJCS/JOINT STAFF WASHINGTON DC PRIORITY
RHEHNSC/NSC WASHINGTON DC PRIORITY
RUEKJCS/SECDEF WASHINGTON DC PRIORITY
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL PRIORITY

UNCLAS SECTION 01 OF 02 ISLAMABAD 002022

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [PREL](#) [PGOV](#) [EFIN](#) [ECON](#) [EAID](#) [ENRG](#) [AE](#) [PK](#)

SUBJECT: ENCOURAGING GULF INVESTMENT IN KARACHI'S POWER
SYSTEM

REF: A. AUGUST 20 MARKS-GAVITO E-MAIL (NOTAL)

[1](#)B. ISLAMABAD 1724

[1](#)1. (SBU) Summary: Karachi Electric Supply Company (KESC), Pakistan's only private utility, serves 18 million consumers in Karachi, the financial, industrial and commercial hub of Pakistan. Inadequate generation and out-dated transmission infrastructure have contributed to chronic load shedding and blackouts, impacting industrial output and sparking public unrest. Abraaj Capital, a UAE-based private equity firm, finalized the purchase of KESC in May, agreeing to invest \$361 million in the utility over the next three years. However, KESC needs \$4-5 billion in capital investments over the next five years to fully upgrade its operations to meet even current demands. Embassy Islamabad requests assistance in ascertaining possible means to influence Gulf state investors to devote additional private or public funds to KESC. End Summary.

Economic and Political Impact of KESC's Poor Performance

[1](#)2. (SBU) KESC is a vertically integrated utility with generation, transmission and distribution assets serving 18 million consumers in Karachi and its environs. Decades of under-investment and poor maintenance have contributed to chronic load shedding from insufficient generation and blackouts from a crumbling distribution network. KESC distributes 2350 MW, 1000 MW short of Karachi's current power demands. (Note: KESC generates 1300 Mw from 22 power plants, but depends on additional power purchases from independent power producers and the government of Pakistan's (GOP) power plants for an addition 1050 MW. End Note). KESC has a \$15 million operating loss each month due to power theft, poor tariff collection, and technical losses.

[1](#)3. (SBU) With 18 million inhabitants, Karachi is home to only 10 percent of Pakistan's population, but accounts for nearly 40 percent of GDP. It is Pakistan's commercial, industrial, financial and media hub. Though KESC prioritizes

energy distribution to industrial estates, black outs and load shedding are a serious impediment to economic productivity. Poor power delivery has also led to large public demonstrations, especially in July when flooding contributed to black outs lasting days in most of Karachi (ref B). KESC CEO Naveed Ismail said there have been 50 mob attacks on KESC offices and 36 KESC cars burned in 2009.

Abraaj Capital's Investment in KESC

¶4. (SBU) Abraaj Capital, a UAE-based private equity firm, gained formal control of KESC in May 2009, though it took informal management control in September 2008. Hassan Associates, a Pakistani firm, had initially purchased the firm from the GOP in 2005. After the purchase KESC shares are divided accordingly: 37.2% Abraaj Capital; 37.2% Hassan Associates and other private investors; 25.6% GOP. However, Abraaj Capital has 7 of 13 seats on KESC's board, with other private investors (3 seats) and the GOP (3 seats) controlling the remainder.

¶5. (SBU) Under its purchase agreement, Abraaj Capital promised to make three payments totaling \$361 million over three years that would be directed towards capital investments in KESC rather than buying out the previous shareholders' stakes in the company: \$150 million in year 1, \$150 million in year 2, and \$61 million in year 3. KESC CEO Ismail told Econoff that Abraaj has already invested \$138 million and plans to invest an additional \$40 million by

ISLAMABAD 00002022 002 OF 002

April 2010. In order to maintain its stake at 25.6%, the GOP promised to invest an additional \$140 million in KESC, but has yet to do so. (Note: Abraaj's investment is diluting the shares of the previous owners. Private investors agreed for their stake to be diluted from 74.4% to 37.2%, but the GOP agreed to invest additional capital to avoid the halving of its shares. End Note.)

¶6. (SBU) CEO Ismail told Econoff that KESC plans to leverage the GOP's and Abraaj's capital contributions to raise \$1.3 billion for capital improvements. (Note: The World Bank and ADB report that their private sector arms have lent \$300 million to KESC and believe private banks will follow their lead. End Note) However, Ismail believes that KESC needs \$4-5 billion over the next five years to fully upgrade its operations.

Influencing Abraaj Capital and Gulf Investors

¶7. (SBU) Abraaj Capital is the largest private equity firm in the Middle East and South Asia. Headed by a Pakistani national, Arif Massood Naqvi, the majority of the board is from the UAE and Saudi Arabia. Abraaj invested in KESC under its 10 year, \$2 billion Infrastructure and Growth Capital Fund, managed by Executive Director Tabish Gahaur. The majority of Abraaj's 210 investors are based in the Middle East, including a number of Gulf State sovereign wealth and royalty funds, according to Ismail.

¶8. (SBU) Embassy Islamabad requests the Department seek Consulate Dubai's assistance in informally approaching Abraaj Capital leadership and influential board members to assess how additional private or public capital could be mobilized for KESC from the Gulf.

¶9. (U) Abraaj Capital board members:

Sheikh Abdulrahman Ali Al Turki, Chairman
Arif Massood Naqvi, CEO
Hussain J. Al-Nowais, Vice Chairman
Bisher Barazi
Fadi Chandour
Mohammed Ali Al Hashimi

Hamid D. Jafar
Saud Abdulaziz Kanoo
Sheikh Khaled Bin Zayed Al Nahayan
Sheikh Sultan Bin Saqr Al Qassimi
Hamad Abdulla Al-Shamsi
Sheikh Nawaf Nasser Bin Khalid Al Thani
Mustafa Abdel-Waddood

Board member biographic information can be found at:
<http://www.abraaj.com/english/List.aspx?mid=37>
PATTERSON